

Report
of the
Examination of
Doral Dental Plan of Wisconsin, Inc
Mequon, Wisconsin
As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

August 8, 2003

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

Honorable Jorge Gomez
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

DORAL DENTAL PLAN OF WISCONSIN
MEQUON, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Doral Dental Plan of Wisconsin (DDPW) or the LSHO) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the LSHO's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the LSHO
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the LSHO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the LSHO to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the LSHO's operations is contained in the examination work papers.

The LSHO is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The Doral Dental Plan of Wisconsin is a for-profit network model limited service health organization (LSHO) insurer. A LSHO insurer is defined by s. 609.01 (3), Wis. Stat., as "...a health care plan offered by an organization established under ch. 185, 611, 613, or 614, Wis. Stat., or issued a certificate of authority under ch. 618, Wis. Stat., that makes available to its enrolled participants, in consideration for predetermined fixed payments, a limited range of health care services performed by providers selected by the organization." Under the network model, the LSHO provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. LSHOs compete with traditional fee-for-service health care delivery.

The LSHO was incorporated December 8, 1994. The LSHO is 100% owned by Doral Dental Services of Wisconsin, Inc., which is owned 100% by Doral Dental USA, LLC. Doral Dental USA is 51.4% owned by MOA Investment, Inc. (a holding company), 23.13% by Craig Kasten, and 23.13% by Marie Kasten. The remaining 2.34% ownership of Doral Dental USA, LLC is held by several shareholders.

Doral Dental Plan of Wisconsin, Inc., is a "point-of-service" dental plan. Enrollees of DDPWI may use their current dentist or may select a dentist from the plan's dental provider directory. The plan writes group coverage, provides dental services to prepaid healthcare plans and self-insured employer groups. DDPWI contracts with 140 providers (dentists) who either have an individual or partnership practice or practice in a clinic-operated office. Certain dental procedures require prior approval when performed by an out-of-network dentist. Dental services provided by DDPWI network dentists do not require prior approval with the exception of orthodontic procedures. All orthodontic services require prior approval. The member's coverage percentage depends upon the benefit plan and the member's choice of dentist. Services provided by a DDPWI network provider will result in a higher coverage percentage. Enrollees requesting covered services from an out-of-network provider will pay the difference between the provider billed charge and the approved fee, when the approved fee is less.

All providers, dentists duly licensed by the state of Wisconsin, who desire to provide dental services to DDPWI enrollees, are required to be contracted through a “Dental Provider Service Agreement.” Providers agree to provide necessary and appropriate services within the scope of their licensure to enrollees of DDPWI and eligible enrollees of prepaid healthcare plans offered by other HMOs. Providers agree not to differentiate or discriminate in providing dental service to enrollees, as compared to non-enrollees. All providers will make their services available to enrollees during the same hours and with the same access as they do to non-enrollees.

Each service provided by a provider will be assigned an allowable value according to the DDPWI fee schedule attached to the “dental provider service agreement.” The allowable fee will be reduced to reflect patient copayments when applicable.

Amounts deposited to the monthly “Dental Services Pool” are computed by multiplying the net premium revenue received by a specified percentage. In the event DDPWI enters into a contract with a prepaid health plan or governmental agency to supply dental services to Medicaid or Medicare beneficiaries, DDPWI will maintain a separate “Dental Services Pool” from premiums received by DDPWI for such services.

On a monthly basis, DDPWI will disburse funds from the “Dental Services Pool” by calculating a pro rata allocation based upon each provider’s allowable service fee as a ratio to that of all providers in the panel. The maximum monthly payout from the “Dental Service Pool” will be 110% of the allowable fees of services rendered.

The DDPWI service area consists of the following Wisconsin counties:

- | | | |
|--------------|-----------|-------------|
| • Milwaukee | • Ozaukee | • Waukesha |
| • Washington | • Racine | • Jefferson |
| • Kenosha | | |

The LSHO currently contracts with the following providers:

- Oral Surgery Associates of Fond du Lac
- Dale Falk, D.D.S.
- Oral Surgery Associates of Fort Atkinson
- Gregory Rodenbeck, D.D.S.
- American Dental Group
- Bay View Community Dental Center
- Brian Blocher, D.D.S.
- Bruce Holmstrom, D.D.S.
- Capitol Family Dental Clinic
- Dale Newman, D.D.S.
- David Stangl, D.D.S.
- Deerwood Orthodontics
- Donald Linneman, D.D.S., S.C.
- Hopkins Street Dental
- John Schoenecker, D.D.S.
- L. Stephen Ward, D.D.S.
- Mark H. Gronemeyer, D.D.S.
- Oren Roesler, D.D.S.
- Port Road Dental Associates, S.C.
- Ralph S. Robe, D.D.S.
- Richard Nellen, D.D.S.
- Suburban Dental Clinic
- Thomas DuBuque, D.D.S.
- Timolin L. Boyd, D.D.S.
- Timothy Bullion, D.D.S.
- Michael J. Hansen, D.D.S.
- Neil J. Maguire, D.D.S.
- Scott Wirth, D.D.S.
- Cedar Lake Dental Professionals
- Julie Bloy-McGuire, D.D.S.
- Dentists of Galleria West, LLC
- Donald J. Wade, D.D.S.
- James W. Mack, D.D.S.
- Michael Bubon, D.D.S.
- Oral Surgery Associates of Oconomowoc
- Oral & Max, Surgery Assoc. of Waukesha
- Walter E. Lehrer, D.D.S.
- Watson & Watson, S.C.
- Oral Surgery Associates of Watertown
- R. Michael Clear, D.M.D.
- Kenosha Community Health Center
- Associated Orthodontists
- Barry Baumann, D.D.S.
- Celestino Perez, D.D.S.
- Cohn Dental Associates
- Craig Byers, D.D.S.
- Eichholz-Remeniuk Dental Clinic
- Family Dental Center
- Gerald Salinsky, D.D.S.
- Gilbert Reid, D.D.S.
- Michelle L. Schmidt, D.D.S.
- Milwaukee Heritage Health Center
- Northpoint Dental Group
- Northtown Dental Group
- Robert DeBoer, D.D.S., LLC
- Roland P. Wolferstetter, D.D.S., L.L.C.
- Sidhu & Associates
- South Side Guadalupe Clinic, Inc.
- Wauwatosa Dental Group
- Wisconsin Orthodontic Specialists
- David P. Stangl, D.D.S.
- Dennis W. Engel, D.D.S.
- Wisconsin Orthodontic Specialists
- John Dovorany, D.D.S.
- Lake Dental Group
- Oral Surgery Associates of West Bend
- Robert N. Schaub, D.D.S.
- A. J. Asby, D.D.S.
- Brookfield Family Dentistry
- Joseph Serflek, D.D.S.
- Mark Knutson, D.D.S.
- Mark Meinhardt, D.D.S.
- Michael Bubon, D.D.S.
- Oral Surgery Associates of Mukwonago
- Paul Culver, D.D.S.
- Wisconsin Orthodontic Specialists

The contracts include hold-harmless provisions for the protection of policyholders and enrollees. The provision prevents providers from seeking “compensation, remuneration, or reimbursement from, or have any recourse against enrollees or persons acting on their behalf for services provided.” The contracts may be terminated with written notice by Doral Dental Plan of Wisconsin upon thirty days notice and by the Provider upon 60 days notice. In the event of a material breach of the terms of the contract, either party may terminate the contract upon 60 days

prior written notice to the other party. If the contract is amended, providers may terminate the agreement by sending written notice at least thirty days prior to the effective date of the amendment.

The LSHO offers a limited range of dental care coverage which may be changed by riders to include deductibles and copayments. The following basic dental care coverages are provided:

Covered Benefit	Participating Dentist	Non-participating Dentist
Diagnostic & Emergency Services	100%	80%
Preventive Services	100%	80%
Basic Restorative Services	80%	60%
Endontic Services	70%	50%
Periodontic Services	70%	50%
Special Restorative Prosthetics	50%	30%
Oral Surgery	80%	60%

Prior Authorization is required when enrollees seek treatment for non-paneled dentists for root canal treatment, periodontal services, complete and partial dentures, and bridge retainers. Orthodontic treatment requires prior authorization regardless of whether the provider is a paneled provider.

The LSHO currently does not actively market any products. Potential new clients approach the company about acquiring coverage instead of being sought out by the company.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Five directors are elected annually to serve a one-year term. Officers of the company are elected at the board's annual meeting. Members of the company's board of directors are members of other boards of directors in the holding company group. The company entered into an agreement on May 9, 2000, allowing a single Board of Directors to govern all of the companies within the holding company system. The board members currently receive compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation
Gregory Borca Cedarburg, WI	CEO of Doral Dental USA
Craig Kasten Mequon, WI	Chairman of the Board
Lisa Sweeney Waukesha, WI	CFO of Doral Dental USA
Wendy Kasten Mequon, WI	Secretary of Doral Dental USA
Ron Brummeyer Milwaukee, WI	Vice President of Doral Dental USA

Officers

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2002 Compensation¹
Greg Borca	President	\$4,440
Wendy Kasten	Secretary	0
Lisa Sweeney	Treasurer	1,150

Employees

The LSHO has no employees. Staff is provided through a management agreement with Doral Dental USA, LLC. Under the agreement, effective January 2, 1998, Doral Dental USA, LLC agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; and provides or contracts for claims processing and MIS. Doral Dental USA, LLC receives 12% of the aggregate net premium of Doral Dental Plan of Wisconsin as compensation for services rendered. The term of the agreement is perpetual or until terminated by either party as stipulated by the agreement. The LSHO may terminate the agreement upon 30 days' written notice if default of standards of performance continues 30 days after notice of such default.

¹ The 2002 compensation is an allocation of the total compensation received by directors among the holding companies.

Financial Requirements

The financial requirements for an LSHO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Not less than \$75,000
2. Security deposit	Each LSHO is required to maintain a deposit of securities with the state treasurer or an acceptable letter of credit on file with the Commissioner's office. The amount of the deposit or letter of credit shall not be less than \$75,000. The letter of credit must be payable to the Commissioner whenever liquidation or rehabilitation proceedings are initiated against the LSHO.
3. Compulsory surplus	Not less than the greater of: 3% of the premiums earned by the LSHO in the previous 12 months or \$75,000 The Commissioner may accept the deposit or letter of credit under par. 2. to satisfy the compulsory surplus requirement if the LSHO demonstrates to the satisfaction of the Commissioner that all risk for loss has been transferred to the providers.
4. Security surplus	The LSHO should maintain a security surplus to provide an ample margin of safety and clearly assure a sound operation. The security surplus should not be less than 110% of compulsory surplus.
5. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus.

The LSHO is provided with corporate insurance coverage under the contracts listed below:

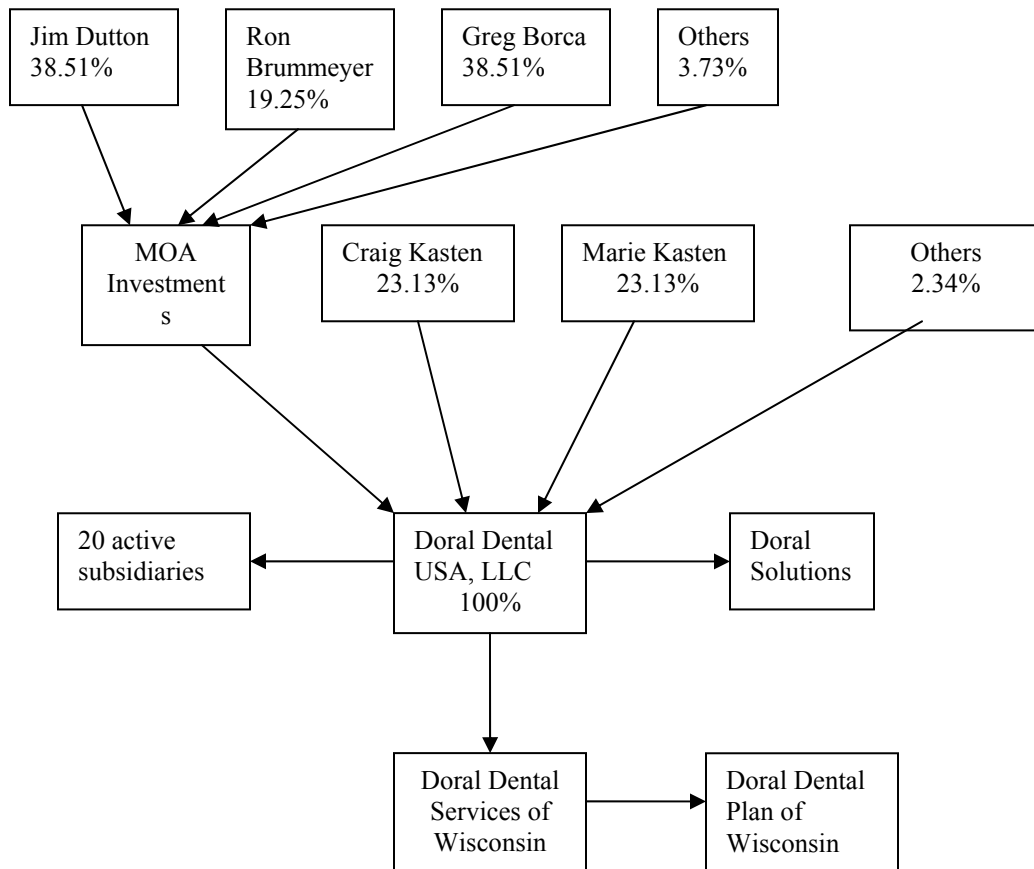
Type of Coverage	Policy Limits
Directors' and officers' liability	\$ 1,000,000
Professional liability	5,000,000
Excess liability	5,000,000
Property coverage	5,400,000

The above coverages are offered through an insurer either licensed in Wisconsin or appearing on the Commissioner's current list of approved surplus lines insurers.

IV. AFFILIATED COMPANIES

Doral Dental Plan of Wisconsin is a member of a holding company system. The ultimate parent is MOA Investments. The chart below depicts the ownership and organizational relationships among owners and affiliates in the group. A brief description of the significant affiliates of Doral Dental Plan of Wisconsin follows the organizational chart.

**Holding Company Chart
As of December 31, 2002**



Doral Dental USA, LLC

Doral Dental USA, LLC is the parent company of Doral Dental Plan of Wisconsin. Based upon Generally Accepted Accounting Principles, the company had \$25.1 million in assets, \$31.2 million in current and long term liabilities, and \$(6,080,951) of equity as of December 31, 2002. The company generated \$61.5 million of revenue while earning \$11,501,270 in Net Income.

Doral Dental Services of Wisconsin is the parent company of Doral Dental Wisconsin. The company does not have any employees. All of the financial activity associated with the company is generated by Doral Dental Plan of Wisconsin and passed through to Doral Dental USA, LLC.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the LSHO as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the LSHO for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

**Doral Dental Plan of Wisconsin
Assets
As of December 31, 2002**

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash and short-term investments	\$178,069	\$0	\$178,069
Health care receivables	35,953		35,953
Amounts due from parent, subsidiaries and affiliates	<u>135,060</u>	<u>—</u>	<u>135,080</u>
Total assets	<u>\$349,082</u>	<u>\$0</u>	<u>\$349,082</u>

**Doral Dental Plan Wisconsin
Liabilities and Net Worth
As of December 31, 2002**

Claims unpaid		\$127,316
Premiums received in advance		<u>100,000</u>
Total liabilities		227,316
Common capital stock	\$ 10,000	
Unassigned funds (surplus)	<u>111,766</u>	
Total capital and surplus		<u>121,766</u>
Total liabilities, capital and surplus		<u>\$349,082</u>

**Doral Dental Plan of Wisconsin
Statement of Revenue and Expenses
For the Year 2002**

Net premium income		\$889,138
Medical and Hospital:		
Other professional services	\$602,418	
General administrative expenses	<u>284,787</u>	
Total underwriting deductions		<u>887,205</u>
Net underwriting gain or (loss)		1,933
Net investment income earned		<u>5,423</u>
Net income or (loss) before federal income taxes		7,356
Federal and foreign income taxes incurred		<u>0</u>
Net income (loss)		<u>\$ 7,356</u>

**Doral Dental Plan of Wisconsin
Capital and Surplus Account
As of December 31, 2002**

Capital and surplus prior reporting year	\$ 97,408
Net income or (loss)	<u>7,356</u>
Capital and surplus end of reporting year ²	<u>\$104,764</u>

² The amount indicated on this line as capital & surplus at the end of reporting year is the amount reported by the company in the Annual Statement. However, this amount does not agree with the amount reported as capital & surplus on page 14 in the schedule reflecting Liabilities, Capital & Surplus (\$121,766). These two amounts should agree. See the section of this report captioned "Summary of Current Examination Findings" for further discussion.

**Doral Dental Plan Wisconsin
Statement of Cash Flows (Indirect Method)
As of December 31, 2002**

Cash from Operations	
Premiums and revenues collected net of reinsurance	\$858,513
Claims and claims adjustment expenses	674,446
General administrative expenses paid	<u>288,945</u>
Cash from underwriting	(104,878)
Net investment income	<u>5,423</u>
Net cash from operations	(99,455)
Cash and short-term investments:	
Beginning of year	<u>277,524</u>
End of year	<u>\$178,069</u>

Growth of LSHO

The following schedules reflect the growth of the LSHO during the examination period:

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Dental Expenses Incurred	Net Income
2002	\$349,080	\$227,316	\$121,766 ³	\$889,138	\$602,418	\$ 7,356
2001	300,552	203,144	97,408	831,034	658,610	(70,987)
2000	381,384	212,989	168,395	887,256	690,515	36,490
1999	327,037	195,132	131,905	846,166	656,538	20,031

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change In Enrollment
2002	0.80%	67.7%	31.8%	2.07%
2001	-9.45	79.2	35.6	-27.45
2000	4.00	75.6	17.9	9.25
1999	2.37	77.5	18.8	-6.66

Enrollment and Utilization

Year	Enrollment
2002	3,252
2001	3,186
2000	4,392
1999	4,020

Per Member Per Month Information

	2002	2001	Percentage Change
Premium	<u>\$22.99</u>	<u>\$21.95</u>	4.36%
Expenses:			
Other professional services	15.60	17.40	-10.30
General administrative expenses	<u>7.38</u>	<u>7.06</u>	4.52
Total underwriting deductions	<u>\$22.98</u>	<u>\$24.45</u>	-6.02

³ The amount indicated on this line as capital & surplus at the end of reporting year is the amount reported by the company in the Annual Statement. However, this amount does not agree with the amount reported as capital & surplus on page 5 in the schedule reflecting Liabilities, Capital & Surplus (\$104,764). These two amounts should agree. See the section of this report captioned "Summary of Current Examination Findings" for further discussion.

The administrative expense ratio increased to 31.8% in 2002 from 18.8% in 1999. In 2001, the company had a 27.4% decrease in enrollment when compared to the prior year enrollment of 4,392. Net income for the year was \$6,256, an improvement over 2001 wherein the company experienced a net loss of \$70,987. Premium volume remained steady ranging between \$831,034 in 2001 to \$889,138 for the year under examination, 2002. The medical expense ratio of 67.7% for 2002 was the lowest for the years under review with the greatest being 79.2% in 2001. Enrollment for 2002 increased 2.5% from the prior year's enrollment to 3,252. Premiums earned in 2002 increased 6.9% over 2001 to \$889,138. The increase in premiums earned above the proportionate increase in enrollment combined with reductions of the administrative expense ratio and medical expense ratio to 31.8% and 67.7%, respectively allowed the company to post a very modest net income of \$6,256 for 2002.

Reconciliation of Capital & Surplus per Examination

The following schedule is a reconciliation of net worth between that reported by the LSHO and as determined by this examination:

Net worth December 31, 2002, Per annual statement			\$121,766
	Increase	Decrease	
Federal Income Taxes Payable	\$	\$ 1,100	
Amount Due from Parent, Subsidiaries, and Affiliates		<u>135,060</u>	
Net increase or (decrease)			<u>(136,160)</u>
Capital & Surplus December 31, 2002, per examination			<u>\$ (14,394)</u>

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 10 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the LSHO are as follows:

1. Management and Control—It is recommended that the company annually file a holding company system annual registration statement by June 1 of each subsequent year for the immediately preceding calendar year pursuant to s. Ins 40.03, Wis. Adm. Code.

Action—Compliance

2. Management and Control—It is recommended that the company file Form A of the holding company system regulation for approval of future changes in control of the company pursuant to s. 611.72, Wis. Stat., and s. Ins 40.02, Wis. Adm. Code.

Action—Compliance

3. Management and Control—It is recommended that the company report to the Commissioner transactions with affiliates affecting service agreements and transactions within a holding company system between the company and an affiliate pursuant to s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

Action—Noncompliance, see comments in the summary of current examination results.

4. Management and Control—It is recommended that the company report any substantial business plan changes to the Commissioner at least 30 days in advance of the effective date of such action pursuant to s. Ins 3.52 (6), Wis. Adm. Code.

Action—Compliance

5. Management and Control—It is recommended that the company disclose in the annual statement general interrogatories the proper answers to all questions applicable to the company in accordance with the NAIC Annual Statement Instructions Limited Health Service Organizations.

Action—Noncompliance, see comments in the summary of current examination results.

6. Management and Control—It is recommended that the company develop a procedure to have all board of directors and key officers annually complete a conflict of interest questionnaire pursuant to the directive of the Commissioner.

Action—Noncompliance, see comments in the summary of current examination results.

7. Management and Control—It is recommended that the company furnish biographical data forms to the Commissioner of all officers and board members pursuant to s. Ins 6.52, Wis. Adm. Code.

Action—Noncompliance, see comments in the summary of current examination results.

8. Management and Control—It is recommended that the company adhere to its articles of incorporation and hold an annual meeting in accordance with such articles and that the company keep a permanent record of such meeting pursuant to s. 180.1601 (1), Wis. Stat., or that the company take action without a meeting pursuant to s.180.0821, Wis. Stat.

Action—Noncompliance, see comments in the summary of current examination results.

9. Management and Control—It is recommended that the company file a record of a change in the par value of its common stock so authorized by its board of directors and pursuant to s. 611.29, Wis. Stat.

Action—Noncompliance, see comments in the summary of current examination results.]

10. Grievance Procedures—It is recommended that the company incorporate complete grievance procedures in its member handbooks pursuant to s. Ins 3.52 (10), Wis. Adm. Code, and s. 609.15 (2) (a), Wis. Stat.

Action—Compliance

Summary of Current Examination Results

Management and Control

Article 3.01 of the Articles of Incorporation and Bylaws states the number of directors shall be three. Currently, the company has 5 directors. It is recommended the company comply with its Articles & Bylaws regarding the number of directors.

Article 4.02 states the officers of the corporation are to be elected annually by the Board of Directors. On May 25, 2001, Craig Kasten appointed Ronald Brummeyer as President, Lisa Sweeney as Treasurer & Chief Financial Officer, and Wendy Kasten (Carerros) as Secretary. Review of the board of director minutes failed to identify any record of elections of officers occurring during the examination period. Article 3.03 requires the Board of Directors (BOD) to meet immediately following the shareholders meeting on the first Monday of March. Review of the BOD minutes indicates that during the period covered by the examination, no meetings occurred on the first Monday of March. It is again recommended that the company adhere to its articles of incorporation and hold an annual meeting in accordance with such articles and that the company keep a permanent record of such meeting pursuant to s. 180.1601 (1), Wis. Stat., or that the company take action without a meeting pursuant to s.180.0821, Wis. Stat.

The company could not produce any conflict of interest statements for Greg Borca, Wendy Kasten (Carerros) or Craig Kasten for the years under review. Statements were produced for one year for Lisa Sweeney and Ron Brummeyer. It is again recommended that the company develop a procedure to have all board of directors and key officers annually complete a conflict of interest questionnaire pursuant to a directive of the Commissioner.

The company has not submitted a biographical sketch to the Commissioner for Lisa Sweeney, the CFO and Treasurer. Section Ins 6.52, Wis. Adm. Code, requires biographical information be filed with the office for all officers where an officer is defined to include the president, vice presidents, secretary, treasurer, chief actuary, general counsel, comptroller, and any person who enjoys in fact the executive authority of any such officers. It is again recommended that the company furnish biographical data forms to the Commissioner of all officers and board members pursuant to s. Ins 6.52, Wis. Adm. Code.

Affiliated Companies

Doral Dental entered into consulting agreements with Health Partnerships America Inc. and Mednet of America in 1996. Health Partnerships America Inc is owned by Craig Kasten and Mednet of America is owned by Greg Borca, both of whom are material owners of Doral Dental Plan of Wisconsin.

In May of 2002, the company loaned \$244,000 to Doral Solutions, a 100% controlled subsidiary of Doral Dental USA, LLC, the parent company of Doral Dental Plan of Wisconsin, Inc. Doral Solutions is therefore an affiliate of the company. Any material transactions between the company and Doral Solutions would require a filing with and an approval by this office.

Section 40.04 (2), Wis. Adm. Code, prohibits a domestic insurer from entering into a transaction required to be reported to the Commissioner unless the transaction has been submitted to the office and not disapproved within at least 30 days prior to its effective date. Section 617.21 (1), Wis. Stat., requires any transactions with affiliates to be:

- reasonable and fair to the interests of the insurer
- the books, accounts and records of each party are kept in a manner that clearly and accurately discloses the nature and details of the transactions
- the insurer's surplus following any dividends or distributions to shareholders is reasonable in relation to the insurer's outstanding liabilities
- the transaction complies with any other standard the Commissioner prescribes by rule

To date, the contracts with Mednet of America, Health Partnerships America, Inc., and the contract and documentation surrounding the loan to Doral Solutions have not been filed with OCI as required by s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code. It is again recommended the company report to the Commissioner transactions with affiliates affecting service agreements and transactions within a holding company system between the company and an affiliate pursuant to s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

The company has a management agreement with Doral Dental USA. Payment for services provided has been established as 12% of the aggregate net premium. Review of the 2002 and 2001 annual statement indicates that DDPWI is paying 17.7% and 26.9%, respectively, of the aggregate net premium as management fees. Review of its 2000 annual statement

indicated that the company appeared to be in compliance with the contract. In addition, the company is making payments of its management fees to Doral Solutions instead of Doral Dental USA, LLC because, according to the company, it is where the bulk of the administrative costs are incurred. However, paragraph 16 of the contract prohibits either party from assigning any of its rights or obligations without prior written consent of the other party, which in this case, prior written consent would need to be provided by DDPWI. To date, management has no such authorization in place. Consequently, the payment of management fees to Doral Solutions by DDPWI is a violation of the terms of the contract. It is recommended the company adhere to the terms of the management agreement between Doral Dental Plan of Wisconsin, Inc and Doral Dental USA, LLC and seek repayment of any excess fees paid.

The company made disbursements of \$50,000 to both Mednet of America and Health Partnerships America, companies owned by Craig Kasten and Greg Borca, purportedly for consulting services rendered as part of contracts agreed to by the parties involved. The company could provide no documentation that services were rendered during the year. The disbursements were from funds transferred out of the Dental Liability Pool. Since the company was unable to provide documentation as to the services provided under the provisions of the contracts, these disbursements appear to be improper. The fact that not all owners were compensated does not change the fact that an undocumented distribution to owners occurred. To comply with s. 617.22, Wis. Stat., an insurer is required to notify the Commissioner in writing at least 30 days before any dividend can be paid. As required by s. 617.225, Wis. Stat., an insurer may not issue an extraordinary dividend without notifying the Commissioner at least 30 days prior to the distribution and provided the Commissioner does not disapprove the distribution. It is recommended the company comply with ss. 617.22 and 617.225, Wis. Stat.

Since the payments made to Mednet of America and Health Partnerships America were made in violation of s. 617.22, Wis. Stat., they should never have been distributed. It is recommended the company recover the aforementioned payments as required by s. 617.22, Wis. Stat.

Schedule Y of the annual statement lists Doral Dental USA, LLC and MOA Investments as affiliates. James Dutton a 38.51% owner of MOA Investments, the controlling parent, was also the acting President of Doral Solutions which is a subsidiary of Doral Dental USA, the parent company of Doral Dental Plan USA which is owned by MOA investments. Craig Kasten, a 23.13% owner of Doral Dental USA is the President of Health Partnerships America, a company which has a "consulting" agreement with Doral Dental Plan of Wisconsin. Greg Borca a 38.51% owner of MOA Investments and the CEO of Doral Dental USA, is the President of Mednet of America which is another company with which Doral Dental Plan has a "consulting" agreement. Ronald Brummeyer, a 19.25% owner of MOA Investments, is a Vice President of Doral Dental USA and a Vice President of Mednet of America. Doral Solutions, a subsidiary of Doral Dental USA, LLC, issues checks on behalf of Doral Dental Plan. As stated previously, during 2002 Doral Dental Plan loaned \$244,000 to Doral Solutions.

The annual statement instructions for Schedule Y, Part 1 state that "The term 'holding company group' includes members of a holding company system and controlled groups." The instructions further state that a company should include a present listing of "identities and interrelationships between the parent, all affiliated insurers and reporting entities and other affiliates...." Affiliations with Mednet of America, Health Partnerships America and Doral Solutions, should be included in Schedule Y, Part 1 since there are ongoing "consulting" contracts with Mednet of America and Health Partnerships America. Doral Solutions should also be included since it is providing administrative services to Doral Dental Plan and is a recipient of a loan from Doral Dental Plan. It is recommended the company complete Schedule Y, Part 1 in accordance with NAIC Annual Statement Instructions - Health.

Accounts & Records

DDPWI makes unnecessarily complex accounting entries to record certain transactions. The effect of this is accounts appear to have more dollar activity moving through them is actually occurring. A single transaction loses its identity in a mass of debit and credit entries. For example, the company records transactions into its Intercompany Receivable account for payments that it is making to outside entities. The company also records an entry in

the Intercompany Payable account twice to record the same transaction. It is recommended the company only record transactions for which there is supporting documentation.

Capital & Surplus

The company reported a capital and surplus balance of \$97,409 as of December 31, 2001. In 2002 the company reported \$7,356 of net income with no other adjustments to capital and surplus. The capital and surplus reported on page 3, the Liabilities, Capital & Surplus page, indicates total capital and surplus of \$121,766. The amount reported on page 5, the continuation of the Statement of Revenue and Expenses indicates the balance of capital and surplus as \$104,764. These two amounts should agree. It is recommended the company complete the Liabilities, Capital & Surplus page in accordance with the NAIC Annual Statement Instructions - Health.

The annual statement lists \$10,000 as common capital stock. The common capital stock has 1,000 shares outstanding with a par value of \$1/share. The annual statement should list \$1,000 as common capital stock. The remaining \$9,000 should be reported as gross paid in and contributed. It is recommended the company fill out the Liabilities, Capital and Surplus page of the annual statement pertaining to par value and gross paid in and contributed in accordance with the NAIC Annual Statement Instructions - Health.

Cash & Short Term Investments

It was noted that the company is not filling out Schedule E correctly. It is putting "various" in the interest rate column. According to the NAIC Annual Statement Instructions, the company should be using the last modified rate of the applicable cash item. It is recommended that the company fill out Schedule E, Part 1 of the annual statement to include the last modified rate of interest rather than listing interest as various in accordance with NAIC Annual Statement Instructions - Health.

The company's only checking account is a zero-dollar account. Funds not needed to pay liabilities are swept into an interest bearing account containing funds from several other affiliates owned by Doral Dental Plan USA, LLC. The company does not have a trust agreement in place for this pooling arrangement. Therefore the investment is in violation of s. 610.23, Wis.

Stat., which states that investments need to be in the name of the insured and not commingled. Furthermore, this account appears to be an investment pool, and would have to be approved by the Commissioner. It is recommended that the company comply with s. 610.23, Wis. Stat., concerning ownership of its investment accounts.

Federal Income Tax

At year end 2002, the company had federal income taxes payable of \$1,103 for which it had accrued \$1,100. Line 29 of the Statement of Revenue and Expenses, federal and foreign income taxes, indicates \$0 resulting in an overstatement of Net Income and Unassigned Funds. The \$1,100 adjustment is reflected in the section of this report captioned "Reconciliation of Capital & Surplus per Examination." It is recommended the company properly completed the Statement of Revenue and Expenses in accordance with the NAIC Annual Statement Instructions- Health.

The company records Federal Income Taxes Payable as part of the General Expenses Due and Accrued account. The company makes an adjustment to the account reclassifying the amount to the Federal Income Tax Expense account. If the company had a separate account for reporting taxes licenses and fees, it would reduce the likelihood that these types of errors would occur. It suggested the company establish an account to record federal taxes payable.

Financial Reporting

Doral Dental USA, LLC has pledged the stock of Doral Dental Plan of Wisconsin to LaSalle Bank as collateral on a loan taken out by Doral Dental USA, LLC. Since ownership of the stock of the company will be transferred if the parent company defaults, the company is providing a guarantee for the indebtedness of others. Statement of Statutory Accounting Principles (SSAP) #5, paragraph 16 requires loss contingencies to be disclosed in the Notes to the Financial Statements. It is recommended the company disclose all loss contingencies in accordance with SSAP #5.

In 2001 and 2002, Doral Dental Plan has filed a CPA audit report based upon Generally Accepted Accounting Principles. Insurance annual statements are filed on a basis using rules prescribed by the National Association of Insurance Commissioners and the State of

Wisconsin, Office of the Commissioner of Insurance. The Wisconsin Insurance Administrative Code requires annual audited financial statements to be filed on the same basis as financial reports submitted to the Office of the Commissioner of Insurance. It is recommended the company comply with s. Ins 50.05, Wis. Adm. Code, when filing its annual audited report.

Amounts Due from Affiliates

Doral Dental Plan of Wisconsin loaned its affiliate, Doral Solutions, \$244,000 in May of 2002, of which \$135,058 is still receivable. The company is unable to provide evidence of a governing document establishing the loan to its affiliate as an “arm’s-length” transaction. SSAP #25, paragraph 7 requires loans or advances by a reporting entity to all other related parties be evaluated by management and non-admitted if they do not qualify as arm’s-length transactions. The examination reduced capital and surplus by the amount of the unpaid balance of the loan to Doral Solutions, or \$135,036, on the basis that the company was unable to show that the loan was properly documented and arms length. This adjustment is reflected in the section of this report captioned “Reconciliation of Capital & Surplus per Examination.” It is recommended the company comply with the provisions of SSAP #25 when reporting affiliated receivable balances.

Commissions

Doral Dental Plan reported commission payments of \$120,537 in the Underwriting and Investment Exhibit, Part 3. Analysis of the broker payments indicated the company is including payments to Mednet of America and Health Partnerships America as commission payments. Commission payments, as defined by the NAIC Annual Statement Instructions-Health, are collection or service fees; policy fees, membership fees and other fees; and commuted renewal fees. It is recommended the company comply with NAIC Annual Statement Instructions- Health when reporting commission expenses as part of the Underwriting and Investment Exhibit, Part 3.

VII. CONCLUSION

Doral Dental Plan of Wisconsin is a for-profit network model limited service health organization (LSHO) insurer. The LSHO was incorporated December 8, 1994. The LSHO is 100% owned by Doral Dental Services of Wisconsin, Inc., which is owned 100% by Doral Dental USA, LLC. Doral Dental USA is 51.4% owned by MOA Investment, Inc. (a holding company), 23.13% by Craig Kasten, 23.13% by Marie Kasten with the remaining 2.34% ownership of Doral Dental USA, LLC being held by several shareholders. The company reported total assets of \$349,082, total liabilities of \$227,316, and unassigned surplus of \$121,766 as of December 31, 2002. Net premiums for 2002 were \$889,138, generating \$7,356 in net income.

The examination decreased the company's surplus by \$136,160. The major cause of the decrease was non-admitting a receivable from an affiliate. The receivable balance of \$135,060 was the remainder of a loan made to Doral Solutions in 2002. Statutory accounting principles require that loans to affiliates be "evaluated by management and non-admitted as an asset if they do not constitute an arms-length transaction." As noted in the examination report, DDPWI did not provide any contracts or other evidence to support that the loan to Doral Solutions was an arms-length transaction. The effect of this treatment reduced the company's capital and surplus to \$(14,394).

The company is a member of an insurance holding company system and receives services from affiliated companies. In 2002, the company made payments to Mednet of America and Health Partnerships America Inc of \$50,000, purportedly based upon consulting contracts entered into in 1996. These companies are owned by Greg Borca and Craig Kasten both of whom are material owners of DDPWI which makes these companies affiliated through shared ownership control. To date, neither of these contracts have been submitted to the Commissioner as required by s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code. In addition to contracts not being submitted to the Commissioner, the company provided no evidence to support the assertion that the payments were made for services rendered in 2002. DDPWI was also a party to other unsubstantiated transactions, including a loan and increased fees for services provided through a management agreement that were not supported by documentation and were not

reported to the Commissioner, as required by law. The examination recommended that DDPWI seek repayment for any excess fees paid.

The Annual Statement filed by DDPWI included many mistakes in both clerical accuracy and in compliance with NAIC Annual Statement Instructions-Health. These errors included a lack of consistency regarding the reporting of surplus between the Balance Sheet and the supporting schedules, failing to report taxes when reporting net income, and improper completion of the Notes to the Financial Statements,

The examination made 19 recommendations and one suggestion as listed on the following page. Four of these recommendations were repeated from the previous examination. Five recommendations related to affiliated transactions and several more related to the reporting of and accounting for transactions. The board of directors should be aware that noncompliance with examination recommendations may result in administrative action.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 20 - Management & Control—It is recommended the company comply with its Articles & Bylaws regarding the number of directors.
2. Page 20 - Management & Control—It is again recommended that the company adhere to its articles of incorporation and hold an annual meeting in accordance with such articles and that the company keep a permanent record of such meeting pursuant to s. 180.1601 (1), Wis. Stat., or that the company take action without a meeting pursuant to s.180.0821, Wis. Stat.
3. Page 20 - Management & Control—It is again recommended that the company develop a procedure to have all board of directors and key officers annually complete a conflict of interest questionnaire pursuant to a directive of the Commissioner.
4. Page 20 - Management & Control—It is again recommended that the company furnish biographical data forms to the Commissioner of all officers and board members pursuant to s. Ins 6.52, Wis. Adm. Code.
5. Page 21 - Affiliated Companies—It is again recommended the company report to the Commissioner transactions with affiliates affecting service agreements and transactions within a holding company system between the company and an affiliate pursuant to s. 617.21, Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.
6. Page 22 - Affiliated Companies—It is recommended the company adhere to the terms of the management agreement between Doral Dental Plan of Wisconsin, Inc and Doral Dental USA, LLC and seek repayment of any excess fees paid.
7. Page 22 - Affiliated Companies—It is recommended the company comply with ss. 617.22 and 617.225, Wis. Stat.
8. Page 22 - Affiliated Companies—It is recommended the company recover the aforementioned payments as required by s. 617.22, Wis. Stat.
9. Page 23 - Affiliated Companies—It is recommended the company complete Schedule Y, Part 1 in accordance with NAIC Annual Statement Instructions - Health.
10. Page 24 - Accounts & Records—It is recommended the company only record transactions for which there is supporting documentation.
11. Page 24 - Capital & Surplus—It is recommended the company complete the Liabilities, Capital & Surplus page in accordance with the NAIC Annual Statement Instructions - Health.
12. Page 24 - Capital & Surplus—It is recommended the company fill out the Liabilities, Capital and Surplus page of the annual statement pertaining to par value and gross paid in and contributed in accordance with the NAIC Annual Statement Instructions - Health.
13. Page 24 - Cash & Short Term Investments—It is recommended that the company fill out Schedule E, Part 1 of the annual statement to include the last modified rate of interest rather than listing interest as various in accordance with NAIC Annual Statement Instructions - Health.

14. Page 25 - Cash & Short Term Investments—It is recommended that the company comply with s. 610.23, Wis. Stat., concerning ownership of its investment accounts.
15. Page 25 - Federal Income Taxes—It is recommended the company properly completed the Statement of Revenue and Expenses in accordance with the NAIC Annual Statement Instructions- Health.
16. Page 25 - Federal Income Taxes—It suggested the company establish an account to record federal taxes payable.
17. Page 25 - Financial Reporting—It is recommended the company disclose all loss contingencies in accordance with SSAP #5.
18. Page 26 - Financial Reporting—It is recommended the company comply with s. Ins 50.05, Wis. Adm. Code, when filing its annual audited report.
19. Page 26 - Amounts Due From Affiliates—It is recommended the company comply with the provisions of SSAP #25 when reporting affiliated receivable balances.
20. Page 26 - Commissions—It is recommended the company comply with NAIC Annual Statement Instructions- Health when reporting commission expenses as part of the Underwriting and Investment Exhibit, Part 3.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the LSHO are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Kerri Miller	Advanced Financial Examiner

Respectfully submitted,

Mark Knievel
Examiner-in-Charge